

Before the Illinois Commerce Commission

Direct Testimony of

Gordon J. Kraut, Jr.

On Behalf of

McNabb Telephone Company

(Docket Nos. 00-0233 & 00-0335)

April 20, 2001

OFFICIAL FILE

ILLINOIS COMMERCE COMMISSION 00-0233/0335
McNabb
Telephone Co. 1.0
Date 6-19-01 Reporter CB

1 **Q. PLEASE IDENTIFY YOURSELF FOR THE RECORD.**

2 A. My name is Gordon Kraut. I am a consulting manager with GVNW Consulting,
3 Inc. GVNW Consulting, Inc.'s principal business is telecommunications
4 consulting for small independent telephone companies. My business address is
5 3220 Pleasant Run, Springfield, Illinois 62707.

6

7 **Q. PLEASE PROVIDE YOUR EMPLOYMENT BACKGROUND.**

8 A. I joined GVNW, Inc. on October 20, 1997. In my current position I consult with
9 independent telephone companies and provide financial analysis and management
10 advice in areas of concern to these companies. Specific activities include
11 regulatory analysis, consultation on regulatory policy, financial analysis, market
12 analysis, rate design and tariff development, long-range strategic planning and
13 general management consulting services. Previously, I was employed by TDS
14 TELECOM, as Manager of Revenue and Earnings in the Government and
15 Regulatory Affairs Group, where my responsibilities were to manage the revenue
16 and earnings processes, manage the development and implementation of earnings
17 strategies, and oversee rate cases, regulatory audits, and earnings reviews for the
18 TDS TELECOM companies. I also assisted in the regulatory review of telephone
19 company operating and capital budgets, and ensuring that capital recovery
20 objectives were achieved for TDS TELECOM operating companies.

21

22 In 1988, I began my telecommunications career with TDS, Inc., as an Internal
23 Auditor. In this position, I conducted both operational and financial reviews of
24 TDS, Inc.'s operating companies. In 1993, I was promoted to Senior Internal
25 Auditor where I took a more active role in managing internal audits for the
26 company. In 1994, I was promoted to Associate Manager of Accounting in TDS

1 TELECOM. My responsibilities included providing management with monthly
2 reports on company financial results, troubleshooting and providing support to the
3 region accounting staffs and helping determine accounting policy and procedures.
4 Early in 1996, I was promoted to the position of Manager of Revenue and Earnings
5 in the Government and Regulatory Affairs Group.
6

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

8 A. I graduated from Edgewood College in May 1988 with a Bachelor of Science
9 Degree in Business with an emphasis in Accounting. I was awarded a Masters in
10 Business Administration from Edgewood College in 1991.
11

12 **Q. HAVE YOU TESTIFIED BEFORE?**

13 A. Yes. I have provided testimony in the Commonwealth of Pennsylvania in rate
14 cases for Sugar Valley Telephone Company and Mahanoy & Mahantango
15 Telephone Company. I have also put in testimony on behalf of Citizens of
16 Kecksburg also in Pennsylvania in a rural exemption case.
17

18 **Q. ON WHAT COMPANY'S BEHALF IS THIS TESTIMONY SUBMITTED?**

19
20 A. McNabb Telephone Company.
21

22 **Q. HAVE THE ILLINOIS UNIVERSAL SERVICE FUNDING**
23 **CALCULATIONS FOR MCNABB TELEPHONE COMPANY USING THE**
24 **FORMAT AGREED TO BY THE STAFF AND THE IITA BEEN**
25 **PREPARED BY YOU OR SOMEONE UNDER YOUR DIRECT**
26 **SUPERVISION?**
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28 A. Yes it has. It is attached as McNabb Telephone Company Exhibit 1.0, Schedule
29 1.01 and consists of three pages.

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Q. DID YOU COMPLETE MCNABB TELEPHONE COMPANY'S EXHIBIT 1.0, SCHEDULE 1.01 IN ACCORDANCE WITH THE INSTRUCTIONS AND BASED ON MCNABB TELEPHONE COMPANY'S ICC FORM 23A OR OTHER INFORMATION FILED BY THE COMPANY WITH THE COMMISSION FOR THE YEAR ENDED DECEMBER 31, 2000?

A. Yes, McNabb Telephone Company's Exhibit 1.0 was based on the ICC Form 23A filed with the Commission.

Q. BASED ON THE RESPONSES AND CONTENT OF MCNABB TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01, IS MCNABB TELEPHONE COMPANY PROVIDING STAFF WITH CERTAIN ADDITIONAL DOCUMENTS?

A. Yes. I am providing the Staff with a copy of McNabb Telephone Company's December 31, 2000, Trial Balance.

Q. HAVE YOU PROVIDED THE REQUISITE INFORMATION FROM MCNABB TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01 TO MR. SCHOONMAKER FOR HIS USE IN COMPILING THE COMPOSITE RESULTS FOR ALL COMPANIES SEEKING FUNDING IN CONNECTION WITH HIS TESTIMONY?

A. Yes, I have.

Q. IS MCNABB TELEPHONE COMPANY EXHIBIT 1.0, SCHEDULE 1.01 TRUE AND CORRECT TO THE BEST OF YOUR KNOWLEDGE, INFORMATION AND BELIEF?

1 A. Yes, it is.

2

3 **Q. HAVE YOU MADE ANY OF THE STANDARD ADJUSTMENTS THAT**
4 **HAVE BEEN AGREED UPON BETWEEN THE IITA AND STAFF?**

5

6 A. Yes, I have.

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8 **Q. PLEASE DESCRIBE EACH OF THE ADJUSTMENTS THAT YOU HAVE**
9 **MADE TO MCNABB TELEPHONE COMPANY.**

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11 A. I have made two (2) standard adjustments on McNabb Telephone Company's
12 Exhibit 1.0. These adjustments are summarized in Schedule 1.02.

13

14 The first adjustment is standard adjustment #3 as listed in Bob Schoonmaker's
15 testimony for out-of-period adjustments. McNabb received \$53,072 in CCL
16 funding in 1999 based on projections filed with the National Exchange Carrier
17 Association in 1999. McNabb's 1999 cost study, completed in July 2000, showed
18 a CCL Revenue Requirement of \$67,116. This results in a \$14,044 true-up of
19 1999 CCL Revenue that was booked in 2000 revenue. This adjustment removes
20 the \$14,044 of 1999 revenue booked in 2000. Also, McNabb received \$117,684
21 in 1998 for Local Switching Support Revenue (LSS) based on projections filed
22 with Universal Service Administration Corporation (USAC). On December 31,
23 1999 McNabb completed its final 1998 LSS true-up calculation. This calculation
24 showed that McNabb's 1998 draw should have been \$127,670, resulting in a
25 \$9,986 true-up that was booked in 2000. This adjustment removes the \$9,986 of
26 1998 revenues booked in 2000.

27

28 The second adjustment that was made was for an increase in Federal High Cost
29 Loop (HCL) Revenues that McNabb is currently receiving in 2001. This is listed
30 as standard adjustment #5 in Bob Schoonmaker's testimony. McNabb received

1 \$48,414 in Federal HCL funding in 2000 per information that appears on quarterly
2 filings that the Universal Service Administration Corporation (USAC) made with
3 Federal Communication Commission. Per these same filings for the first two
4 quarters of 2001 annualized, McNabb is receiving \$54,078. This results in an
5 increase in Federal funding of \$5,664 and is a known and measurable revenue
6 increase.

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8 **Q. HAVE YOU MADE ANY OF NON STANDARD ADJUSTMENTS THAT**
9 **WERE NOT AGREED UPON BETWEEN THE IITA AND STAFF?**

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11 **A.** Yes, I have.

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13 **Q. PLEASE DESCRIBE EACH OF THE NON-STANDARD ADJUSTMENTS**
14 **THAT YOU HAVE MADE TO MCNABB TELEPHONE COMPANY.**

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16 **A.** I have made two (2) non-standard adjustments on McNabb Telephone Company's
17 Exhibit 1.0. These adjustments are summarized in Schedule 1.02.

18
19 The first non-standard adjustment removes non-regulated revenues appearing in
20 McNabb Telephone Company's ICC Form 23A filed with the Commission. The
21 adjustment removes \$430 of non-regulated revenues from McNabb's Exhibit 1.0,
22 Line 14, Total Operating Revenues.

23
24 The second adjustment increases depreciation expense by \$44,820. Due to an
25 accounting error in 1999, McNabb booked excess depreciation in the switching
26 accounts and in 2000 McNabb corrected this error in depreciation expense. This
27 adjustment increases McNabb's depreciation expense to a normal level.

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29 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY ON BEHALF**
30 **OF MCNABB TELEPHONE COMPANY?**

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2 A. Yes, it does.

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McNabb Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000

<u>Line #</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Additions</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 984,834	\$ -	\$ 984,834
2	Materials and Supplies Inventory	Page 2, 13-Month Average	10,354		10,354
3	Customer Deposits	Form 23A, P 8, 4040	2,825	-	2,825
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	135,603	-	135,603
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			856,760
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	542,183	44,820	587,003
8	Less: Depreciation Expense	Form 23A, P 13, 6560	129,140	44,820	173,960
9	Total WC Operating Expense	line 7 - line 8	413,043	-	413,043
10	WC OE Requirement	line 9 * 45 / 360			51,630
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			51,630
13	Total Rate Base	line 5 + line 12			908,390
14	Total Operating Revenues	Form 23A, P 11, Total	805,796	(18,796)	787,000
15	Less: Illinois High Cost Fund		98,586	-	98,586
16	Net Operating Revenues	line 14 - line 15	707,210	(18,796)	688,414
17	Total Operating Expenses	Form 23A, P 14, Total	542,183	44,820	587,003
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	5,529	-	5,529
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	159,498	(63,616)	95,882
21	Income Tax Expense	line 34			37,143
22	Net Operating Income	line 20 - line 21			58,739
23	Return on Rate Base	line 22 / line 13			6.47%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			101,831
26	Adj to Achieve Target Return on RB	line 25 - line 22			43,092
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			70,343
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			95,882
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			6,884
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			88,998
33	Federal Income Tax Expense	line 32 * 34.00%			30,259
34	Total Imputed Income Tax Expense	line 31 + line 33			37,143
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

McNabb Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$10,628
2	January-00	\$10,628
3	February-00	\$10,628
4	March-00	\$10,628
5	April-00	\$10,628
6	May-00	\$10,628
7	June-00	\$10,628
8	July-00	\$10,035
9	August-00	\$10,035
10	September-00	\$10,035
11	October-00	\$10,035
12	November-00	\$10,035
13	December-00	\$10,035
14	13 Month Average	\$10,354

Sale/Lease Back Arrangement

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The company does not have any sale(s)/lease back arrangement.
The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

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The company does not have any lease agreements with affiliates.
The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

McNabb Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 50,572
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 87,802
3	State Access Revenues	Trial Balance 12/31/00	\$ 163,130
4	State High Cost Support	Exhibit 1.0, Line 15	\$ 98,586
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 1,280
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 401,370
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 22,038
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 161,674
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 167,341
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 11,657
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 362,710
12	Misc Revenues	Trial Balance 12/31/00	\$ 41,716
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 805,796</u>

McNabb Telephone Company
 Summary of Adjustments

		Dr.	Cr.
Standard Adjustment 5			
2001 HCL Fund Draw	\$ 54,078		
2000 HCL Fund Draw	\$ 48,414		
Increase in HCL funds	\$ 5,664		

Universal Service Adjustments 5,664

Adjustment to record increase in Federal High Cost Loop Fund.

Standard Adjustment 3

1998 Projected LSS Revenue	\$ 117,684
1998 Final LSS Revenue	\$ 127,670
1998 True-up booked in 2000	\$ (9,986)

Local Switching Support 9,986

To adjust out the 1998 LSS True-up that appeared in the 2000 Financial Statements.

Standard Adjustment 3

1999 Projected CCL Revenue Req.	\$ 53,072
1999 Final CCL Revenue Req.	\$ 67,116
1999 True-up booked in 2000	\$ (14,044)

Carrier Common Line 14,044

To adjust out the 1999 CCL True-up that was booked in 2000 Financial Statements.

Adjustment 6

Total Regulated Revenues	430
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To adjust out Non-Reg Revenues included in 23A.

Adjustment 6

2000 Switching Depr. Exp. at 10% Depr. Rate	82,128
2000 Switching Depr. Exp. per books	<u>37,308</u>
Increase in Switching Depr. Exp.	44,820

Depreciation Expense	44,820
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To increase depreciation to reflect a normal test year value